

Sales and Use Tax Changes for Internet Access

Sales & Use tax notice #04-03

This notice is to advise Internet service providers (ISPs) and telecommunications companies of a change in the tax treatment for the sale of Internet access following the Court of Appeals ruling in *Prodigy Services Corporation, Inc. v. Ruth E. Johnson, Commissioner of Revenue*, and the Tennessee Supreme Court's denial of a petition for appeal.

Internet Access Charges

Effective immediately, ISPs should stop collecting sales tax from consumers on the sale of Internet access. Internet access is no longer considered a taxable "telecommunication service" under Tennessee law.

Claims for Refund

ISPs who wish to request a refund of the sales tax collected from their customers and remitted to the department on Internet access charges must use the following procedure:

- Claims for refund must be filed within three years from December 31 of the year in which the payment was made.
- In order to claim a refund of tax collected on Internet access charges, taxpayers are required to refund the collected tax to the retail customers. When submitting a claim for refund, ISPs must include documentation that their retail customers have received a refund for the sales taxes paid on Internet access charges.
- If the ISP purchased telecommunications services on a resale certificate during the claim for refund period, the ISP must present documentation showing that it has

paid sales tax on all telecommunications services used to provide Internet access covered by the claim during the refund period. The ISP may reduce any refund requested by the amount of sales taxes it owes on telecommunications services that were exempted as purchases for resale. Please note the amount refunded to the retail customers cannot be reduced by the amount of sales taxes the ISP owes on the telecommunications services.

Sales Tax Due on Telecommunication Services

Effective immediately, ISPs may no longer use a resale certificate to purchase telecommunications that are used to provide Internet access to customers. Companies who sell telecommunications services should no longer accept resale certificates from ISPs for the sale of Internet access.

If you have any questions about this notice or the documentation needed when submitting a claim for refund, you may contact the department. Tennessee residents outside the Nashville calling area may call our statewide toll-free number at (800) 342-1003. Callers from Nashville or out-of-state may dial (615) 253-0600. You can access additional information, including the [Claim for Credit or Refund of Sales or Use Tax form](#), on our Web site at www.Tennessee.gov/revenue.

Have questions or comments? Please let us know. [Contact us.](#)

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